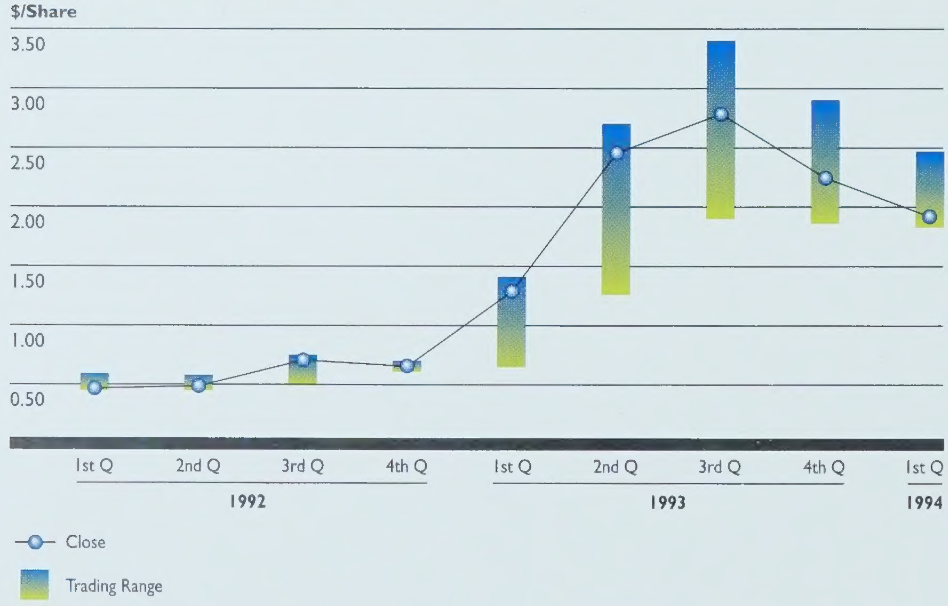
ORBIT OIL & GAS LTD.

1993 ANNUAL REPORT

· Contents ·

Orbit Common Share Trading History



· Annual Meeting ·

The Annual Meeting of the Shareholders of Orbit Oil & Gas Ltd. will be held on June 2, 1994 at 10:00 a.m. in the Lakeview Rooms at the Westin Hotel, 4th Avenue and 3rd Street S.W., Calgary, Alberta, Canada.

· Corporate Profile ·

Incorporated in 1977, Orbit Oil & Gas Ltd. is a Canadian energy company engaged in the exploration for and development and production of oil and natural gas in Western Canada. Orbit has both proved and prospective oil and natural gas properties in Alberta, British Columbia and Saskatchewan.

Orbit's unique association with two inter-related energy companies, Czar Resources Ltd. and Canadian Frobisher Resources Ltd., allows the Company to jointly conduct exploration and development activities, while sharing a common management team.

This joint venture has many spin-off benefits including reducing overhead costs and operating risk, while increasing the Company's ability to effectively compete in today's resource industry. A shared approach also provides Orbit with valuable natural gas exploration and marketing expertise.

Orbit's exploration and development strategy targets natural gas in the Western Canadian basin; the joint venture helps the Company expand its existing natural gas reserves to meet contract obligations, while exploring in areas where new contracts may be obtained.

Orbit's corporate objectives include demonstrating per share growth in earnings, funds flow and asset value, while maintaining financial strength by controlling its leverage.

· Financial and Operational Highlights ·

Financial	1993	1992	1991
(in thousands unless otherwise indicated)			
Total Revenue	**$ 16,540**	$ 10,714	$ 10,834
Funds Flow From Operations	**$ 9,058**	$ 5,428	$ 5,393
Funds Flow Per Common Share	**$ 0.34**	$ 0.22	$ 0.21
Net Earnings (Loss)	**$ 5,492**	$ 1,446	$ (10,161)
Net Earnings (Loss) Per Common Share	**$ 0.19**	$ 0.02	$ (0.56)
Total Assets	**$ 44,396**	$ 35,467	$ 34,612
Capital Expenditures	**$ 12,436**	$ 4,922	$ 5,156
Long-Term Debt	**$ 5,555**	$ 8,481	$ 10,581
Common Shares Outstanding			
Average	**23,881**	19,886	20,033
At year end	**28,547**	19,964	19,890

Operating			
Production (Before Royalties)			
Natural gas (BCF)	**7.1**	5.5	5.5
Average daily production (MMCF/D)	**19.4**	15.0	15.0
Oil and natural gas liquids (MSTB)	**229**	216	231
Average daily production (BBLS/D)	**628**	591	633

Drilling Activity			
Gas Completions	**6**	4	6
Oil Completions	**12**	2	1
Dry and Abandoned	**9**	2	4
Total	**27**	8	11

Reserves			
Before Royalties			
Natural gas (BCF)	**80.6**	79.8	74.1
Oil and natural gas liquids (MSTB)	**1,597**	1,442	1,427
After Royalties			
Natural gas (BCF)	**62.2**	61.5	56.3
Oil and natural gas liquids (MSTB)	**1,302**	1,143	1,136

Undeveloped Land Holdings (net acres)			
Alberta	**48,970**	39,416	55,290
British Columbia	**25,748**	31,584	20,618
Saskatchewan	**5,286**	6,969	2,421
Total	**80,004**	77,969	78,329

ANOTHER RECORD YEAR FOR ORBIT

On behalf of the Board of Directors, I am pleased to report that for the year ended December 31, 1993, Orbit achieved record financial and operating results.

With prudent management and sound strategic planning, the Company has not only survived the protracted downturn in the gas industry, but is very well positioned to take advantage of the gas industry upturn and will continue to expand its exploration, production and marketing of natural gas throughout North America.

The steady recovery in natural gas prices during 1993 permitted Orbit to complete a number of financings and helped the Company experience a rapid turnaround in its financial position. Orbit also reported the highest annual revenue and funds flow in its history.

Record production was also achieved during 1993 and the combination of increased funds flow forecast for 1994 and an aggressive exploration program form the basis for future production increases.

A healthy operating environment, coupled with a renewed commitment for finding major natural gas reserves, places Orbit in a position to accelerate growth through the 1990's.

EQUITY FINANCING RAISES CAPITAL, REDUCES DEBT

During 1993, Orbit raised $7.4 million through the issue of common shares and share purchase warrants and $3.3 million of preferred shares outstanding were converted to common shares.

The refinancing initiatives greatly improved the Company's balance sheet, enhanced its financial security and freed up funds flow for exploration, development and land acquisitions.

Orbit's financial strength, lean operating structure and large critical mass place the Company in a favourable position to boost capital spending and take advantage of its land inventory and proved undeveloped natural gas reserves.

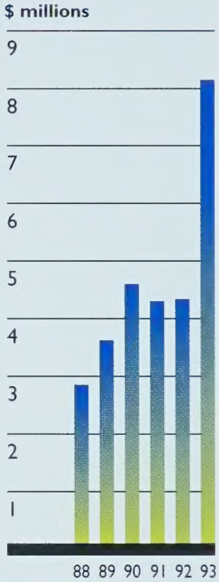
To achieve its goals, the Company intends to increase its capital budget to $13 million in 1994.

Financial picture excellent, a springboard for greater growth

Orbit's financial plan is based upon closely matching its expenditure level to funds flow and new equity. However, the Company's undrawn credit lines, of $7 million, could permit a major acquisition or other significant expansion of the Company's asset base.

Orbit's geological and property acquisition staffs have been increased to achieve greater exploration and acquisition goals during 1994.

Funds Flow
(after dividends)



Joint venture agreement continues opening doors to opportunity

Orbit's joint exploration and development agreement with two associated companies, Czar Resources Ltd. and Canadian Frobisher Resources Ltd., continues to function very effectively and gives the Company sufficient critical mass to optimize new opportunities and maintain production control.

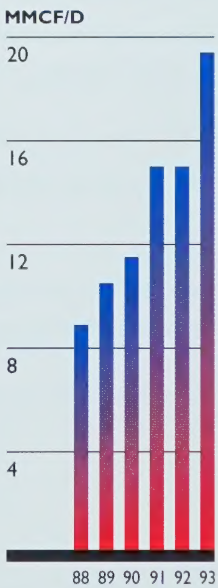
With the assets of all three companies managed by a common management team through a formal joint venture arrangement, aggregate funds flow is increased and corporate overhead costs are reduced.

In summary, the joint venture represents three groups of shareholders brought together with a common goal of forming a larger critical mass that is able to compete more effectively in the natural gas business. The relationship provides substantial benefits for all three parties.

More gas to be found as market conditions improve

Recent reports by the Geological Survey of Canada and Sproule Associates Limited suggest that substantial volumes of natural gas reserves remain within the Western Canadian sedimentary basin, predominately in the Devonian system. In addition, as outlined in the Survey report, approximately 60 percent of the natural gas in Canada is still undiscovered compared to 28 percent in the U.S. It is estimated that at the low prices that persisted for the past several years, only a minor portion of the remaining reserves would have been economic. However, at current prices, almost half of the estimated Devonian reserves can be economically developed.

Gas Production



Orbit has recently launched an aggressive gas exploration program focused primarily on Devonian targets in British Columbia. In addition, the Company plans to rapidly expand its Alberta exploration effort in 1994 by targeting a number of horizons in the south and west of the province.

Innovative drilling technique taps into B.C. gas

During the summer of 1993, Orbit was involved in the drilling of a number of horizontal oil wells in the Birch area of northeastern British Columbia. The current low oil prices have resulted in Orbit postponing its plans to further develop the Birch acreage at the present time.

A benefit from the Birch program was that the technology gained in drilling and completing horizontal prospects resulted in Orbit drilling two horizontal gas wells in the Fort St. John area of British Columbia during 1993.

Based on encouraging results from these wells, the Company recently commenced a much larger exploration and development program in the Jean Marie formation in the Helmet area of northeastern British Columbia. The Company announced a substantial gas flow from the first well drilled in this program and has now completed drilling six additional horizontal gas wells in the area. Five of these wells are currently producing and further work in the area will be based upon a detailed evaluation of their production capabilities.

Production growth through connection of shut-in gas

Higher natural gas prices and deliverability contracts have encouraged Orbit to review its substantial reserves of shut-in gas, primarily in the province of British Columbia. In the first quarter of 1994, Orbit connected a number of shut-in gas wells in the Midwinter-Suhm area via an 18-mile extension of the Company's Helmet gas gathering system. The Company is reviewing its other areas with shut-in gas reserves with plans to connect them to market during the coming winter.

Gas, oil production growth

During 1993, Orbit's gas production increased to 19.4 MMCF/D. A production facility expansion in Helmet during the first quarter of 1994, which involved the connection of 12 wells, has increased production to approximately 25 MMCF/D.

The development of a number of Alberta and British Columbia oil pools increased Orbit's oil and natural gas liquids production from 591 BBLS/D in 1992 to an average of 628 BBLS/D in 1993.

Optimism tempered by cautious, measured steps

As a result of deregulation and increasing demand, Western Canadian natural gas is a very attractive commodity, especially in U.S. markets where the availability of long-term supply is becoming a concern.

This marketing environment, driven by tighter supplies and rising consumption, has sparked greater competition among utilities and other large U.S. and Canadian customers for gas supply over medium and longer-term periods.

With more and more American industries and utilities using natural gas for both heating and electric power generation due to more stringent clean air laws, Orbit is in an excellent position to expand its production volumes.

It is gratifying to see the enormous growth potential and the emergence of a strong market for Canadian natural gas finally materializing. Orbit has been preparing for this scenario for several years.

Staff expansion to handle growth

The Company is well positioned for growth with a focus on expanding our production infrastructure to connect shut-in gas reserves, acquiring and developing large quantities of reserves and maintaining a diversified gas contract portfolio. To assist with these objectives, the Company added staff members Eugene Wasylchuk in the position of Acquisitions Manager and Kurt Larsen in the position of Manager, Gas Marketing and Regulatory Affairs, during 1993.

Orbit's large natural gas reserve base, diversified portfolio of contracts and seasoned management team will ensure that the Company will continue to demonstrate excellent financial gains for its shareholders for several years.

The key to 1993 was refinancing the Company and continuing to market our gas effectively and profitably. I'm very optimistic about our growth potential in 1994. We'll continue to run our financial affairs carefully and optimally and we have the management team in place to effectively carry out this mandate.

Now we will turn our attention to locating new large pools of natural gas.

On behalf of the Board of Directors.

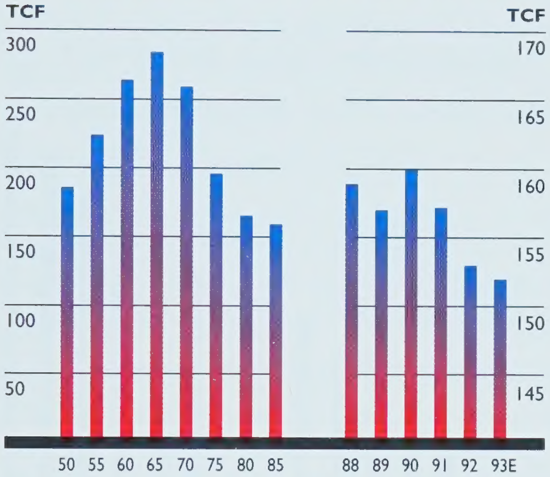
R.W. Lamond,
Chairman of the Board, President and CEO

March 31, 1994

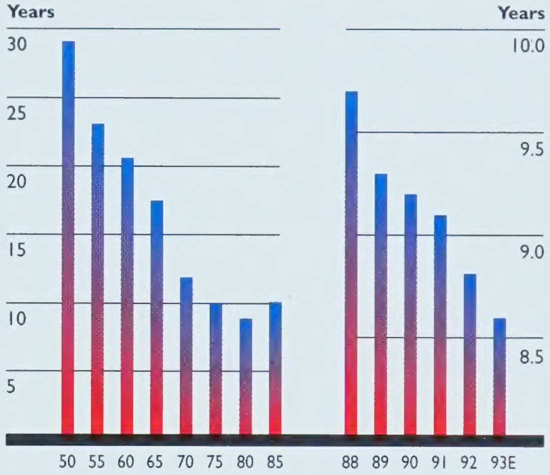
Orbit's Operating Environment – Natural Gas

Orbit's business plan is based on the premise that natural gas is a North American energy commodity in a mature phase of its development cycle and that the lower 48 United States gas supply is in an irreversible decline which will eventually result in a balanced gas market and sustained higher prices.

U.S. Gas Reserves — Lower 48 States



U.S. Reserves Production Ratio Lower 48 States

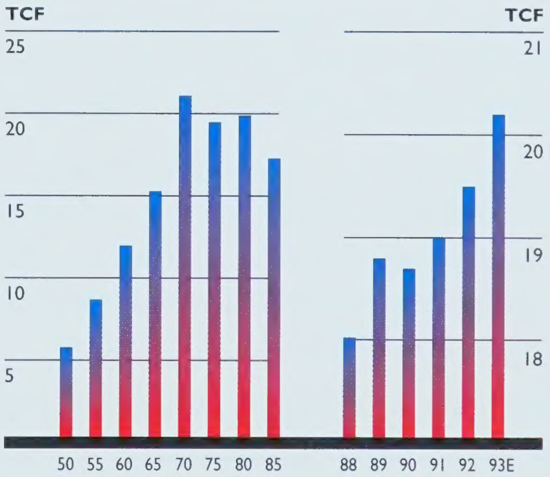


This premise has been confirmed by the steady decline of U.S. natural gas reserves since 1967 and the drastic reduction of the reserve production ratio during the past thirty years.

In the late 1970's, a combination of an over regulated gas market, gas curtailments and high energy prices, resulted in huge investments in the gas industry and set up a decade long period of surplus gas and eroding prices.

The inevitable result of gas being sold at greatly reduced prices, compared with competing fuels, was a rebound in gas demand commencing in 1987.

U.S. Natural Gas Consumption

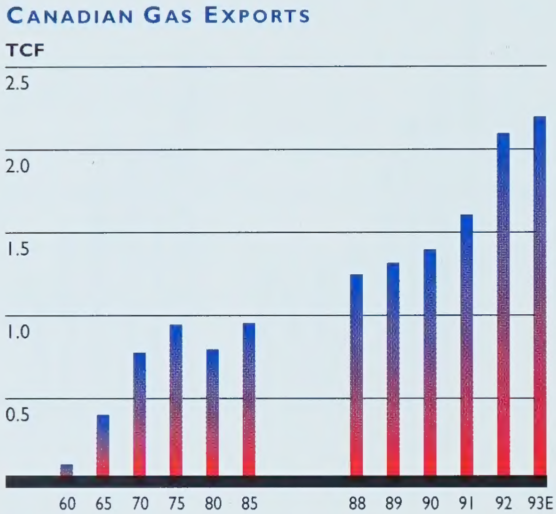


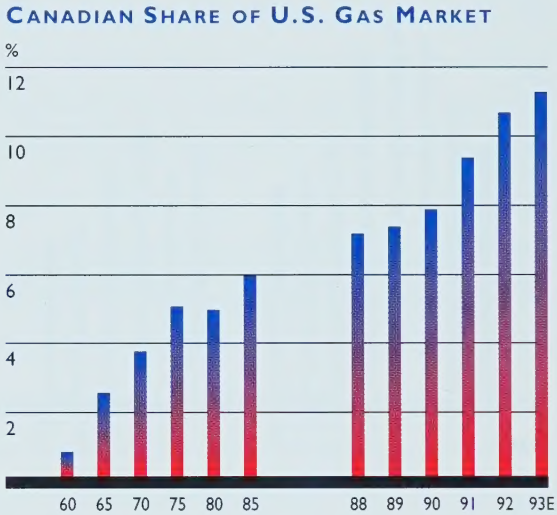
During the mid-1980's, several other factors contributed to increasing the amount of gas available to the market, including:

- the connection of several new producing basins;
- a tax subsidy for drilling coal seam gas;
- the deregulation of pipeline transportation; and
- the change in gas sales arrangements from long-term reserves based contracts to spot gas sales.

Despite these changes, by the end of the 1980's it was clear that the U.S. gas basins could not meet increasing U.S. consumption.

Of major significance to Canadian gas producers, a large proportion of the incremental U.S. demand since 1987 has been met by expanded Canadian exports. This is illustrated by the fact that Canadian exports totalled one trillion cubic feet or six percent of the U.S. market in 1985 and by 1993, Canadian exports had increased to 2.2 trillion cubic feet or 11 percent of the U.S. market.

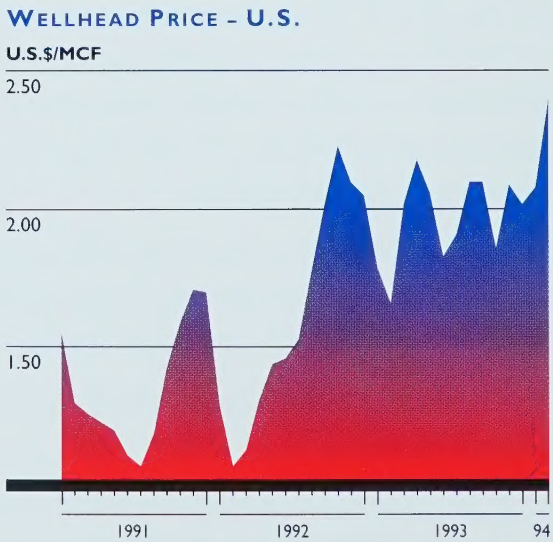




During the past eighteen months, the Canadian natural gas industry has produced at maximum deliverability rates, a radical change from the prior thirty years during which gas sales were restricted and governed by long-term rate of take contracts.

The impact of sustained higher natural gas demand and maximum rates of production has resulted in gas prices in the U.S. and Canada trending upwards from approximately $1.00/MCF in early 1992 to current pricing at the $2.00 to $2.50/MCF level.

It is highly likely that such pricing will be maintained during the current period of North American economic expansion, with the only significant caveat being the effect of the low price of crude oil. At current oil prices, there is some potential for fuel switching. However, on the strength of a balanced supply and demand, it is expected that current natural gas price levels will likely be maintained.



Company Operations

Financial stability paves way for growth

With much improved operating results in 1993, Orbit is in its best financial health in more than a decade.

The improved balance sheet and financial ratios resulted from the proceeds from equity financings in 1993 and from record production, earnings, funds generated from operations and higher natural gas prices.

Orbit's earnings for the year increased dramatically to a record $5.5 million, or $0.19 per share after preferred share dividends, from $1.4 million or $0.02 per share in 1992. Funds flow from operations increased by 67 percent to $9.1 million or $0.34 per share, after preferred share dividends, from $5.4 million or $0.22 per share in 1992.

Total revenue increased by $5.8 million or 54 percent, to $16.5 million, from $10.7 million in 1992.

Improved financial strength and a rebounding natural gas market encouraged an increased corporate reinvestment rate for 1993. Capital spending jumped to $12.4 million, or 137 percent of funds flow, compared with $4.9 million, or 90 percent of funds flow for 1992. The excess capital expenditures over funds flow from operations was financed through new equity issues.

Industry recovery sparks greater success

Increased demand for natural gas throughout North America gave Orbit the opportunity to produce its natural gas at record rates and improved prices during 1993.

With the industry currently operating at close to deliverability levels and with storage levels declining to record lows as the result of the severe winter, the Company anticipates that higher gas demand and prices will prevail through 1994.

The Company's natural gas production increased by 29 percent to average 19.4 MMCF/D from 15.0 MMCF/D in 1992.

Natural gas prices increased throughout the year and averaged $1.65/MCF, a 15 percent increase from the $1.43/MCF average price in 1992.

Increased oil production from new wells at Flatrock and Birch in British Columbia, and Gadsby and Pembina in Alberta resulted in a six percent increase in the Company's oil and natural gas liquids production, to average 628 BBLS/D compared with 591 BBLS/D in 1992.

Orbit's gas production growth boosted by connection of shut-in gas

A substantial portion of Orbit's natural gas reserves base is comprised of blocks of shut-in gas, predominately situated in the Helmet area of northeastern British Columbia. These pools have not been connected to market to date due to marginal economics, remoteness from existing pipelines and poor gas prices. Development work to delineate these pools was not undertaken due to the likelihood of lengthy delays in connecting these reserves to market.

Due to higher natural gas prices and the ability to market gas at deliverability rates, the Company reviewed a number of these pools and, in the first quarter of 1994, connected a substantial block of reserves in the Midwinter-Suhm area of British Columbia.

Orbit laid 18 miles of 6-inch pipeline from the north end of the Helmet gas gathering system to the south portion of the Midwinter-Suhm pool and connected four existing wells to the system. In addition, two horizontal wells were drilled to increase deliverability from the pool, and they have been placed on stream.

In this project, Orbit connected approximately 17 BCF of proved natural gas reserves, 3.9 BCF net to Orbit, and increased deliverability from this pool by 16 MMCF/D, 2.3 MMCF/D net to Orbit.

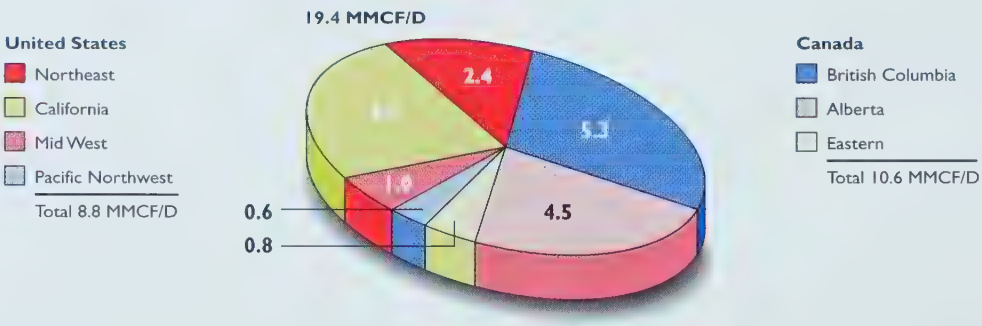
In addition to the reserves connected at Midwinter-Suhm, Orbit currently controls 36 BCF of proved shut-in gas, of which nine BCF is located in the Helmet area.

The Company is actively reviewing a number of similar shut-in pools with a view to conducting further development and delineation drilling early in the 1994/95 winter drilling season and connecting those reserves to market.

Orbit's gas marketing approach adapts to changing times

Orbit's natural gas marketing objectives are to market the Company's gas reserves at optimum prices and rates of take and to reduce business risk by marketing to geographically diverse end users.

Distribution of Natural Gas Sales – Year Ended December 31, 1993



Orbit has concentrated on long-term export contracts, with secure transportation arrangements, to ensure access to premier North American markets and control priority access to transportation on a variety of gas distribution systems. However, as a result of recent moves to deregulate the pipeline systems and remove the merchant function from the pipeline companies, Orbit is reappraising its natural gas marketing strategy and a greater portion of Orbit's 1994 sales will be through shorter-term arrangements.

The Company's analysis is that this change in marketing strategy will provide the greatest flexibility and highest gas prices in today's marketplace.

During 1993, 33 percent of Orbit's gas production was sold under long-term contracts to U.S. markets, 37 percent was sold under long-term contracts to Canadian markets and 30 percent was sold under short-term arrangements with Canadian and U.S. purchasers. Long-term contracts generally have terms of up to ten years, while short-term contracts have terms of less than two years.

Renegotiating long-term contracts

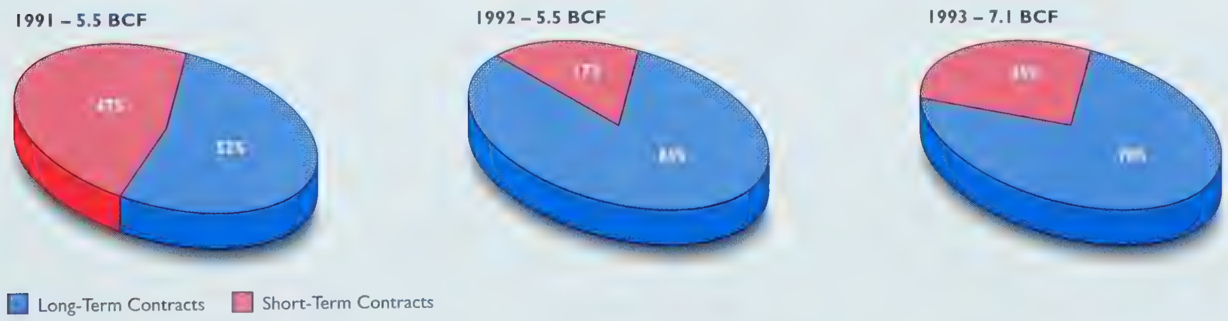
After a protracted dispute relating to the insistence by the California Public Utilities Commission that Pacific Gas and Electric and its Canadian subsidiary, Alberta & Southern Gas Co. Ltd. terminate their long-term Canadian contracts, Orbit and the other Canadian producers announced that they had decontracted their California natural gas reserves.

In consideration of this decontracting, Orbit received a cash settlement of $0.7 million and was able to enter into a long-term exchange agreement which allows for the resale of 38 MMCF/D of production from the Helmet area of British Columbia at the AECO storage facilities in Alberta. As AECO is one of the most active transportation hubs in Western Canada, Orbit's gas contracting flexibility for British Columbia gas reserves is significantly enhanced.

The Company is currently restructuring its KannGaz Producers Ltd. contract which is administered by Wascana Energy Ltd. Orbit is presently negotiating a settlement which will result in the decontracting of a substantial amount of gas reserves dedicated to Tennessee Gas and is expected to result in a settlement payment to Orbit in the order of $2.0 million.

With Orbit's expanded natural gas marketing staff, a continuous review of North American markets will enable the Company to properly manage its gas portfolio and obtain optimum results.

Gas Contracts – Sales Term



· Orbit's Major Producing Areas ·

Area	Land	Wells	Production
Helmet, British Columbia			
The Company's most significant asset is its interest in the Helmet area located in the extreme northeast corner of British Columbia.	48,810 reserve acres, [1] 20,817 acres net to Orbit to which reserves have been assigned and 13,602 net acres undeveloped.	22 producing gas wells, 3.42 wells net to Orbit and 35 shut-in gas wells, 4.8 wells net to Orbit.	During 1993, natural gas production from the area averaged 8.9 MMCF/D net to Orbit.
Gadsby, Alberta			
The Gadsby area, located approximately 30 miles east of Red Deer, is the Company's second largest producing gas field.	15,952 reserve acres, 4,608 acres net to Orbit with 3,685 net acres undeveloped.	18 producing gas wells, 4.52 wells net to Orbit, five shut-in gas wells, 1.1 wells net to Orbit and seven producing oil wells, 0.9 wells net to Orbit.	During 1993, natural gas production from the area averaged 1.1 MMCF/D net to Orbit. Two oil wells at Ewing Lake in this area produced 76 BBLS of oil per day net to Orbit.
Westerose South, Alberta			
This area is located 50 miles northwest of Red Deer.	8,742 reserve acres, 2,804 acres net to Orbit with 2,710 net acres undeveloped.	Seven producing gas wells, 2.3 wells net to Orbit and five shut-in gas wells, 2.9 wells net to Orbit.	During 1993, natural gas production from the area averaged 0.9 MMCF/D net to Orbit and 38 BBLS/D of natural gas liquids.
Wilson Creek, Alberta			
The Wilson Creek area is located 60 miles northwest of Red Deer.	11,045 reserve acres, 4,219 acres net to Orbit with 2,072 net acres undeveloped.	11 producing gas wells, 4.2 net to Orbit, four shut-in gas wells, 0.8 wells net to Orbit and 22 producing oil wells, 8.9 wells net to Orbit.	During 1993, natural gas production from the area averaged 0.4 MMCF/D net to Orbit and 132 BBLS of oil and natural gas liquids net to Orbit.

Reserves [2]	Exploration
There are 186 BCF of proved natural gas reserves in the area, 25.0 BCF net to Orbit.	As this is a remote winter access only area, the Company's exploration and development occurs during the winter drilling season. During the 1993-94 winter drilling season, the Company drilled seven horizontal natural gas wells, one vertical gas well and one dry hole in the area with five of the wells being placed on production by the end of the first quarter of 1994. With the additional capability from this area, the Company anticipates gas production of 85 MMCF/D, 11.7 MMCF/D net to Orbit during 1994.
There are 17.9 BCF of proved natural gas reserves in the area, 2.7 BCF net to Orbit and oil and natural gas liquids reserves of 531,000 BBLS, 98,500 BBLS net to Orbit.	During 1993, eight wells were drilled in the Gadsby area which resulted in seven oil wells, 0.57 oil wells net to Orbit and one dry hole. These wells have been placed on stream and are anticipated to produce 40 BBLS net to Orbit during 1994. The Company is currently evaluating additional compression to accelerate production from the area. The Company anticipates 3.2 MMCF/D of production, 1.3 MMCF/D net to Orbit during 1994.
There are 18.6 BCF of proved natural gas reserves in the area, 4.4 BCF net to Orbit and oil and natural gas liquids reserves of 1.3 million BBLS, 228,000 BBLS net to Orbit.	This is one of Orbit's mature natural gas fields, and no additional work is currently being planned for 1994.
There are 5.1 BCF of proved natural gas reserves in the area, 1.6 BCF net to Orbit and 659,000 BBLS of oil and natural gas liquids, 231,000 BBLS net to Orbit.	During 1994, a study of production facility modifications and increased compression is expected to result in additional gas production from the area. Oil production will decline slightly in 1994 as the field enters the mature phase of its life.

[1] *Reserve acres are lands with assigned reserves.*

[2] *All reserves are from the Fekete Report dated February 1994.*

Exploration

Acquisition and exploration program ensures ongoing growth

Increased funds generated from operations along with a much improved natural gas industry environment encouraged an expansion of Orbit's 1993 acquisition, exploration and development program. In 1993, Orbit's capital budget increased to $12.4 million from $4.9 million in 1992.

During 1993, Orbit participated in drilling 27 wells and completed 12 oil wells and six gas wells. Nine wells were abandoned.

Multi-well development drilling programs at Gadsby in Alberta and at Flatrock and Birch in British Columbia resulted in an increased number of oil wells drilled during 1993. Orbit also participated in seven gas wells, three in British Columbia and four in Alberta.

At Birch, Orbit drilled two horizontal oil wells with current production ranging from 20 to 50 barrels per day. With low prevailing oil prices, the Company has put further development of its acreage in the Birch area on hold.

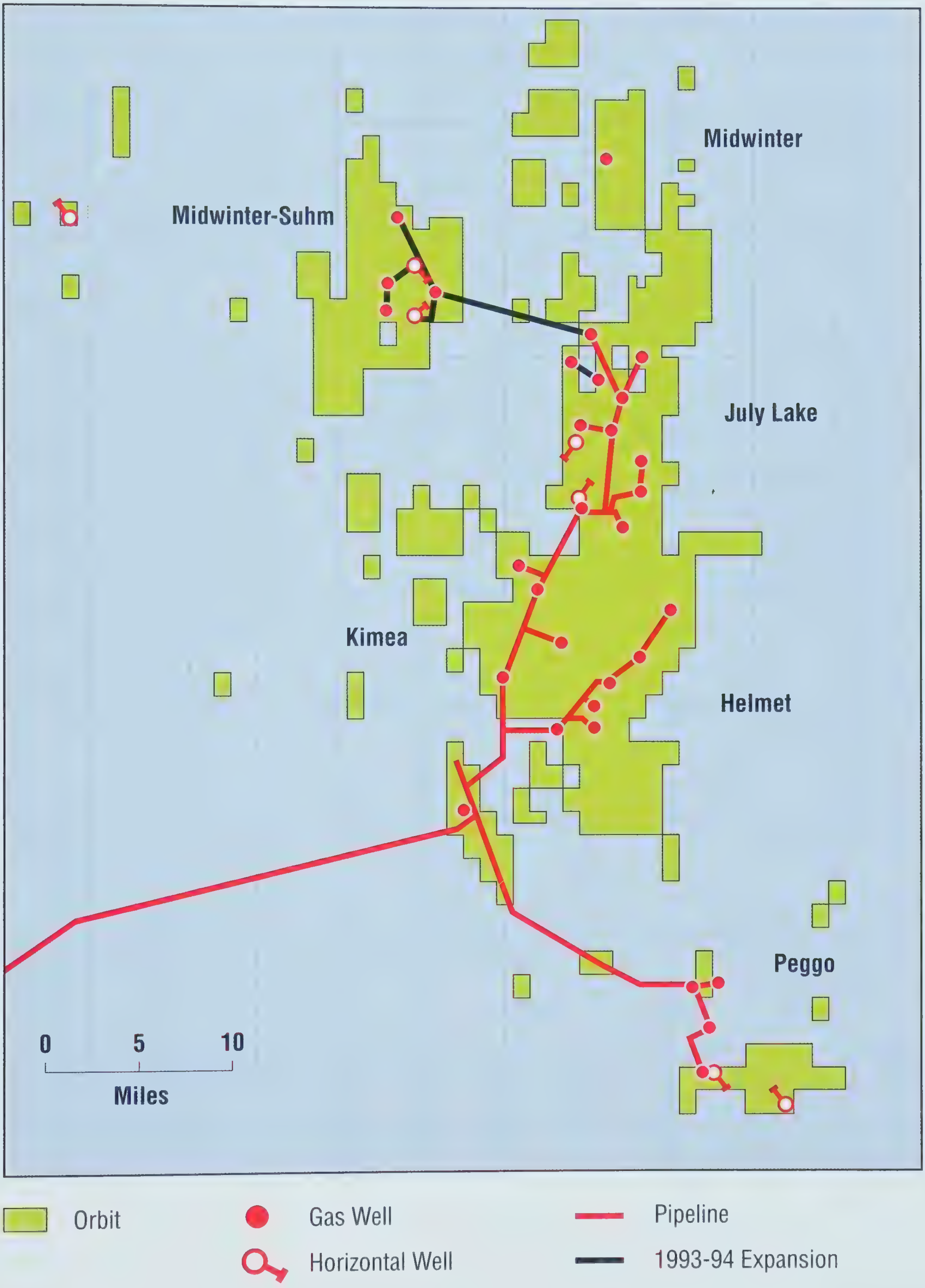
Two gas wells were drilled near Sinclair on the Peace River Arch which encountered shallow, high deliverability Cretaceous gas zones. The wells are expected to be placed on production later this year.

The Company's most significant exploration achievement during 1993 was the commencement of a horizontal gas drilling program. The first well, drilled at Fireweed, near Fort St. John, commenced production at 9 MMCF/D, is currently producing at a rate of 3.4 MMCF/D and has produced 700 MMCF/D in five months.

The first horizontal well drilled in Helmet encountered lost circulation problems from a highly fractured zone. The well was placed on production at a rate of 10 MMCF/D and is currently producing approximately 4 MMCF/D.

· Helmet Area ·

1993-94 Program



In summary, during the past six months, the Company has drilled nine horizontal gas wells on two prospect types in northeastern British Columbia. It is expected that the horizontal technology will allow Orbit to greatly increase deliverability from known reserves and will provide the tools to add substantial volumes of new gas reserves in areas where conventional wells have not been economically viable. The Company plans to closely monitor the production performance of its horizontal gas wells and on the basis of results, expects to rapidly expand its horizontal gas well drilling program.

This winter's drilling results have been highly successful in terms of reserves and deliverability additions. However, because most of the activities were completed in 1994, the results are not reflected in the Company's 1993 reserve report. In order to carry out Orbit's expanded exploration and development program in 1994, the Company has added two geologists.

During 1993, the Company added approximately 4.9 BCF of natural gas reserves through a number of acquisitions and incurred $1.7 million on substantial purchases of land for future development. In 1994, Orbit will continue to expand its natural gas asset base through an aggressive acquisition and exploration program.

Drilling Results

	Gas Wells		Oil Wells		Dry Holes		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
1993	**6**	**2.0**	**12**	**2.3**	**9**	**3.2**	**27**	**7.5**
1992	4	1.4	2	0.3	2	0.5	8	2.2
1991	6	1.7	1	0.5	4	0.8	11	3.0
1990	12	2.7	1	0.7	2	0.6	15	4.0
1989	8	2.2	4	1.1	7	2.1	19	5.4
1988	13	3.4	4	0.7	4	0.7	21	4.8
	49	13.4	24	5.6	28	7.9	101	26.9

During 1993, the Company produced 7.1 BCF of natural gas and 229,000 BBLS of oil and natural gas liquids. Reserve additions and adjustments added gas reserves of 8.2 BCF and added oil and natural gas liquids reserves of 384,000 BBLS. In summary, the Company's proved natural gas reserves were increased by 1 BCF and oil and natural gas liquids increased by 155,000 BBLS during 1993.

Company reserves as at December 31, 1993, were evaluated by an independent engineering consultant, Fekete Associates Inc. According to the evaluation, Orbit's proved and probable reserves totalled 80.6 BCF of natural gas and 1,597.2 MSTB of oil and natural gas liquids. Over 90 percent of the Company's reserves have been given proved status and almost one half of the proved reserves are currently producing.

During 1993, the Company's capital expenditure program began to change focus to reserve replacement and exploration. Previously, Orbit focused on production facilities and placing proved reserves on stream.

The 1993 drilling program resulted in the addition of 5.3 BCF of natural gas and 279,000 BBLS of oil and natural gas liquids. Orbit also added 4.9 BCF of natural gas and 81,000 BBLS of natural gas liquids through acquisitions.

OIL AND NATURAL GAS RESERVES AT DECEMBER 31, 1993[1]

	Before Royalties		After Royalties	
	Natural Gas (BCF)	Oil & NGLs (MSTB)	Natural Gas (BCF)	Oil & NGLs (MSTB)
Proved Producing	36.1	1,303.8	28.4	1,078.3
Proved Non-Producing	39.9	289.5	30.2	220.8
Total Proved	76.0	1,593.3	58.6	1,299.1
Probable	4.6	3.9	3.6	3.1
Total Proved and Probable	80.6	1,597.2	62.2	1,302.2

ESTIMATED PRESENT VALUE OF FUTURE NET REVENUE ($ MILLIONS)

	Undiscounted	10%	15%	20%
Proved Producing	$ 68.7	$ 44.1	$ 38.0	$ 33.6
Proved Non-Producing	62.2	25.5	18.6	14.1
Total Proved	130.9	69.6	56.6	47.7
Probable	9.3	3.0	2.1	1.5
Total Proved and Probable	$140.2	$ 72.6	$ 58.7	$ 49.2

[1] *Reserve information is from the Fekete Report dated February 15, 1994.*

Present value

The estimated future revenue from Orbit's oil and gas reserves as determined by Fekete is based on an average natural gas price of $1.95/MCF in 1994, escalating to $2.30/MCF by 1998 and approximately four percent per year thereafter.

The current price estimates for 1994 are higher than those forecast in 1993 while the rate of future price escalation is lower. The change in price estimates results in an increase in the value of future revenue from the reserves from $99.0 million at December 31, 1992 to $140.2 million at December 31, 1993.

Using a discount rate of 15 percent, the discounted present value of estimated future revenue from the Company's reserves increased by 51 percent to $58.7 million at December 31, 1993, compared with $38.8 million at December 31, 1992.

Reserves continuity

Natural Gas (BCF)		Proved	Probable	Total
Reserves at December 31, 1991		71.0	3.1	74.1
Production 1992		(5.5)	0.0	(5.5)
Additions 1992	– Exploration	1.0	0.0	1.0
	– Net Acquisitions	10.9	0.8	11.7
	– Disposals	(2.4)	0.0	(2.4)
Revisions		(0.1)	1.0	0.9
Reserves at December 31, 1992		74.9	4.9	79.8
Production 1993		(7.1)	0.0	(7.1)
Additions 1993	– Exploration	5.3	0.0	5.3
	– Net Acquisitions	4.9	0.0	4.9
Revisions		(2.0)	(0.3)	(2.3)
Reserves at December 31, 1993		76.0	4.6	80.6

Natural Gas Liquids (MSTB)				
Reserves at December 31, 1991		614.1	5.5	619.6
Production 1992		(53.4)	0.0	(53.4)
Additions 1992	– Exploration	0.0	0.0	0.0
	– Net Acquisitions	0.0	0.0	0.0
	– Disposals	(2.8)	0.0	(2.8)
Revisions		142.0	(1.7)	140.3
Reserves at December 31, 1992		699.9	3.8	703.7
Production 1993		(60.1)	0.0	(60.1)
Additions 1993	– Exploration	45.1	0.0	45.1
	– Net Acquisitions	72.6	0.0	72.6
Revisions		(94.0)	0.1	(93.9)
Reserves at December 31, 1993		663.5	3.9	667.4

Oil (MSTB)				
Reserves at December 31, 1991		807.6	0.0	807.6
Production 1992		(162.8)	0.0	(162.8)
Additions 1992	– Exploration	61.5	0.0	61.5
	– Net Acquisitions	27.4	0.0	27.4
	– Disposals	0.0	0.0	0.0
Revisions		4.2	0.0	4.2
Reserves at December 31, 1992		737.9	0.0	737.9
Production 1993		(169.1)	0.0	(169.1)
Additions 1993	– Exploration	233.6	0.0	233.6
	– Net Acquisitions	8.5	0.0	8.5
Revisions		118.9	0.0	118.9
Reserves at December 31, 1993		929.8	0.0	929.8

Orbit's Corporate Strategy and Goals

The future looks great!

Orbit is currently producing record volumes of natural gas for sale under a diverse portfolio of long-term and short-term contracts. The Company's financial condition is the best it has been in over a decade, and its key financial ratios are excellent.

As a result of forecast economic growth and the increasing use of natural gas as an environmentally favoured fuel, the outlook for natural gas demand is excellent. With this in mind, Orbit will continue to increase its capital reinvestment rate and exploration program in 1994.

Human resources provide expertise to manage and sustain growth

Orbit has developed a strong and versatile management team and a competent and dedicated staff.

Their resourcefulness and the Company's excellent financial position will allow Orbit to proceed with its exploration and expansion programs with enthusiasm and confidence.

Orbit's corporate environmental policy

Orbit is a responsible corporate citizen. The Company conducts its oil and gas exploration, development and production operations in a manner which safeguards the environment, in order to preserve the environment's nature and character for current and future generations. Along with Orbit's goal of environmental leadership in the energy industry, the Company approaches day to day business cognizant of the important balance between the public interests and the interests of the Company's shareholders.

Orbit's financial and operating results improved significantly in 1993 as a result of higher natural gas prices and increased production volumes. Funds flow from operations, after preferred share dividends of $0.9 million, nearly doubled to $8.2 million in 1993 from $4.3 million in 1992, while earnings after preferred share dividends were dramatically higher, reaching $4.6 million for 1993 compared to $0.4 million in the prior year.

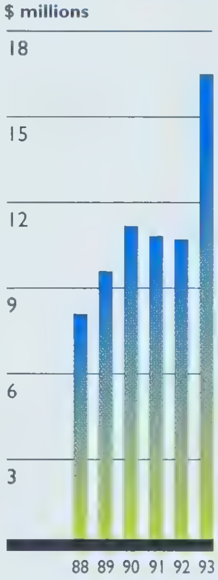
The Company's financial condition was also significantly improved as net debt was reduced to $6.2 million at the end of 1993 from $10.4 million at the end of 1992, and preferred share liability was reduced to $10 million compared to $14 million a year earlier.

Revenue

Orbit's total revenue increased by $5.8 million or 54 percent to $16.5 million for the year ended December 31, 1993 from $10.7 million in 1992. This increase in revenue resulted from a $2.9 million increase in gas sales, a $1.6 million gain on sale of marketable securities, a $0.7 million natural gas reserves decontracting settlement and an increase in Alberta Royalty Tax Credits of $0.3 million.

We anticipate revenue should continue to grow during 1994 due to higher natural gas prices and increased production from new wells, pipelines and production facilities added in the Helmet area of British Columbia in the first quarter of 1994.

Total Revenue



Production

Approximately 57 percent of Orbit's natural gas was produced in British Columbia with the balance produced in Alberta. Eighty-nine percent of the Company's oil and natural gas liquids were produced in Alberta with the remainder produced in British Columbia and Saskatchewan.

During the year ended December 31, 1993, the Company's natural gas production increased by 29 percent to average 19.4 MMCF/D compared with 15.0 MMCF/D for 1992. Crude oil and natural gas liquids production also increased by six percent to average 628 BBLS/D during 1993 compared with 591 BBLS/D in 1992. Oil and natural gas liquids production for 1994 is expected to average over 650 BBLS/D.

British Columbia

Orbit's 1993 gas production from British Columbia averaged 11.1 MMCF/D, a significant increase from 8.2 MMCF/D in 1992. This increase in natural gas sales was primarily from the Helmet area where average daily production increased by 1.7 MMCF/D during 1993, as a result of additional production from wells and reserves acquired and connected in the July Lake Pool in the last quarter of 1992.

The construction of 18 miles of pipeline and the connection of 12 additional wells, five of which were drilled in the Helmet and Peggo areas during the 1993-94 winter drilling season, are anticipated to add 5.2 MMCF/D to Orbit's natural gas production during 1994.

In addition, gas sales from the Company's first horizontal gas well, which was drilled in the fourth quarter of 1993 in the Fireweed area of British Columbia, added 1.4 MMCF/D to Orbit's production.

Historically, the majority of the Company's British Columbia gas reserves have been dedicated to long-term gas contracts. However, as a result of the decontracting of gas reserves from Alberta & Southern Gas Co. Ltd., gas contracts are anticipated to be of a shorter-term during 1994 and Orbit is benefiting from current higher prices.

Alberta

Orbit's 1993 gas production in Alberta averaged 8.3 MMCF/D compared to production of 6.8 MMCF/D in 1992. The increase was due to the connection of additional wells in the Davey Lake, Ewing Lake, Hylo, Wembley, Drumheller and Wilson Creek areas of Alberta, which offset production declines from the Company's more mature fields.

Oil and natural gas liquids production in Alberta marginally increased, to 556 BBLS/D in 1993 from 548 BBLS/D in 1992, as a result of additional production from new wells drilled in the Gadsby area during the year.

Product prices

Despite falling crude oil prices in 1993, oil revenue remained relatively unchanged for the year due to increased production volumes. Gas revenue improved significantly due to higher gas prices.

Average product price before royalty

	Natural Gas $/MCF	Natural Gas Liquids $/BBL	Oil $/BBL
1993	**1.65**	**15.96**	**19.64**
1992	1.43	15.42	21.21
1991	1.30	15.57	21.73
1990	1.41	18.25	26.30
1989	1.37	13.21	20.25
1988	1.36	11.63	17.20

The average price received for natural gas increased from $1.43/MCF in 1992 to $1.65/MCF in 1993 as supply and demand came into balance. The average prices received in November and December 1993 were in excess of $2.00/MCF as prices increased for the contract year commencing November 1, 1993. The Company is anticipating prices to remain over $2.00/MCF for the balance of 1994.

Higher gas prices accounted for 63 percent of the increase in gas sales revenue.

Oil prices declined during the year due to oversupply on world oil markets. The Company received an average price of $19.64/BBL for its oil production during 1993.

Expenses

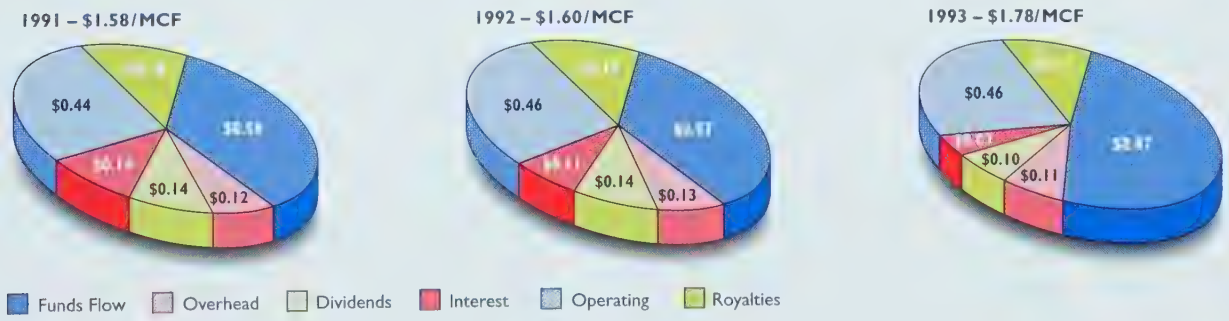
Operating expenses for 1993 were $4.3 million or $0.46 per equivalent MCF of production compared to $3.5 million or $0.46 per equivalent MCF of production for 1992. Increased natural gas production from wells with lower operating costs per MCF offset increased repair and maintenance costs during 1993.

General and administrative costs remained constant at $1.0 million. The Company is expecting an increase in general and administrative expenses in 1994 as additional staff and office space are required to accommodate the increased exploration and development activity.

The reduction in debt and interest rates during the year resulted in a reduction of $0.2 million in interest expense. The conversion of the majority of the Series 3 Preferred Shares to common shares reduced dividends on preferred shares by $0.2 million.

Royalty rates remained constant at 15 percent for the period. However, the amount received by Orbit in Alberta Royalty Tax Credits was double the amount received in 1992. The 1992 amount had been reduced due to prior year royalty adjustments. The Alberta government has announced changes to the program which will result in the amount of the credit being reduced by 25 percent after January 1, 1995.

Distribution Of Revenue (per equivalent unit)



Depletion and depreciation

Reserve additions and revisions during 1993 exceeded the Company's production. Proved gas reserves increased by 1.1 BCF and proved oil and natural gas liquids reserves increased by 155.5 MSTB during the year. During the same period, Orbit's depletable asset base increased by $7.6 million and the estimate of future capital expenditures required to produce the proved reserves increased by $1.4 million. As a result, the Company's depletion rate per equivalent unit of gas production increased to $0.53/MCF in 1993 compared with $0.49/MCF in 1992.

Earnings and funds flow generated from operations

Funds flow generated from operations, after preferred share dividends, increased 88 percent to $8.2 million or $0.34 per share in 1993, from $4.3 million or $0.22 per share in 1992. Earnings, after preferred share dividends, were $4.6 million or $0.19 per share in 1993 compared to $0.4 million or $0.02 per share in 1992. Increased funds flow from operations resulted from higher gas prices and production, the settlement received for decontracting natural gas, higher Alberta Royalty Tax Credits and a reduction in interest expense and preferred share dividends. Earnings were further increased due to the gain on the sale of marketable securities.

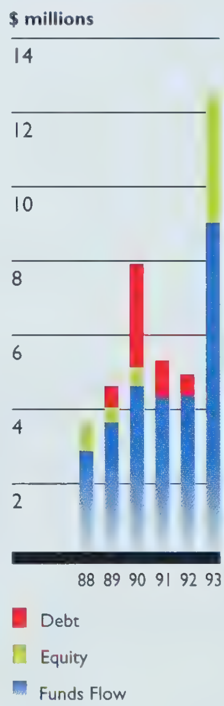
Income taxes

Orbit has not recorded any provision for current or deferred income taxes. Income tax deductions available to Orbit which were approximately $50 million at December 31, 1993, exceed the book value of its assets by approximately $10 million. The value of these excess tax deductions has not been recognized in the financial statements and therefore under current income tax laws and accounting procedures, and based on the revenue forecast and capital expenditure plans, Orbit will not be required to record a current income tax payable provision for at least the next five years.

Capital expenditures

Orbit increased its oil and gas expenditures significantly during 1993, to $12.3 million, from $4.7 million in 1992. During 1993, Orbit's expenditure program included $2.9 million on land and geophysical acquisitions, $6.8 million on drilling opportunities and $2.6 million on production facilities. The Company is planning a $13 million capital program in 1994.

Financing Of Capital Expenditures



Liquidity and capital resources

The Company's line of credit with its bank is $11.5 million, of which $5.3 million was outstanding at December 31, 1993. The line of credit currently has no repayment terms. At December 31, 1993, Orbit had preferred shares outstanding with a total face value of $10 million and an average dividend rate of 7.5 percent. Orbit is committed to use its best efforts to purchase on the exchange, a total of 10,484 preferred shares per quarter, to a maximum price of $10 per share. Orbit had a working capital deficiency of $0.6 million at December 31, 1993.

The market value of marketable securities exceeded the carrying value by $1 million at year end. Higher gas prices and production levels are anticipated to provide increased funds flow from operations which will be used to finance an expanded exploration development and acquisition program. Increased funds flow and unused lines of credit will provide Orbit with flexibility and sufficient liquidity to service its debt and preferred share obligations and to pursue exploration and acquisition opportunities.

Sensitivity analysis

Orbit's revenues, funds flow from operations and earnings are dependent upon changes in the economic environment within which it operates. As part of its normal operations, Orbit controls costs and prices through financial hedging and insurance to the extent that they can be hedged at a reasonable economic cost. Orbit's revenues are generated predominantly from natural gas sales. Therefore, Orbit's revenues, funds flow from operations and earnings are most sensitive to changes in natural gas pricing.

Key Variable	Change in Variable	Impact on Annual Funds Flow	
		$000	$/Share[1]
Natural gas			
Production MMCF/D	1.0	$480	$0.02
Price $/MCF	$0.10	$800	$0.03
Oil and NGLs			
Production BBLS	100	$470	$0.02
Price $/BBL	$1.00	$200	$0.01

[1] *Per share calculations are based on outstanding shares at December 31, 1993.*

• Consolidated Balance Sheet •

As At December 31

(in thousands of dollars)	1993	1992
Assets		
Current Assets		
Cash	$ 231	$ 15
Accounts receivable	2,188	1,482
Marketable securities *(Note 3)*	1,542	1,149
	3,961	2,646
Property, Plant and Equipment *(Note 4)*	40,435	32,821
	$ 44,396	$ 35,467
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 4,227	$ 4,228
Current portion of long-term debt	337	349
	4,564	4,577
Long-Term Debt *(Note 5)*	5,555	8,481
Other Liabilities *(Note 6)*	847	614
	10,966	13,672
Shareholders' Equity		
Capital Stock *(Note 7)*		
Preferred Shares, Series 2	9,113	9,510
Preferred Shares, Series 3	670	3,966
Common shares	18,335	7,642
Contributed surplus	364	321
	28,482	21,439
Retained Earnings	4,948	356
	33,430	21,795
	$ 44,396	$ 35,467

Approved by the Board:

, Director , Director

• Consolidated Statement of Operations and Retained Earnings •

Years Ended December 31

(in thousands of dollars except per share amounts)	1993	1992
Revenue		
Production (net of transportation)	$ 15,730	$ 12,132
Royalties	(2,374)	(1,798)
Alberta Royalty Tax Credit	704	355
Other	930	25
Gain on sale of marketable securities	1,550	–
	16,540	10,714
Expenses		
Production	4,288	3,486
General and administrative	1,001	990
Interest on long-term debt	643	810
Depletion and depreciation	5,116	3,892
Write-down of marketable securities	–	90
	11,048	9,268
Net Earnings	5,492	1,446
Retained Earnings (Deficit) at Beginning of Year	356	(20,273)
Authorized reduction of share capital applied to deficit	–	20,273
Preferred share dividends	(900)	(1,090)
Retained Earnings at End of Year	$ 4,948	$ 356
Net Earnings Per Common Share *(Note 1(c))*		
Basic	$ 0.19	$ 0.02
Fully diluted	$ 0.18	$ 0.02

• Consolidated Statement of Source and Use of Cash •

Years Ended December 31

(in thousands of dollars except per share amounts)	1993	1992
Cash Provided By (Used For):		
Operating activities		
Net earnings	$ 5,492	$ 1,446
Non-cash items	3,566	3,982
Funds flow from operations	9,058	5,428
Change in non-cash working capital	(707)	2,590
	8,351	8,018
Investing activities		
Proceeds on sale of marketable securities	2,320	–
Purchase of marketable securities	(1,163)	–
Acquisition of property, plant and equipment pursuant to:		
Current operations	(11,333)	(4,922)
Flow-through share arrangement	(1,103)	–
Site restoration costs	(29)	(63)
	(11,308)	(4,985)
Financing activities		
Capital lease obligations	(338)	(6)
Long-term bank debt	(2,600)	(2,000)
Issuance of common shares for:		
Cash (net of issue costs of $250)	7,397	82
Conversion of preferred shares	3,296	–
Conversion of preferred shares	(3,296)	–
Redemption of preferred shares	(354)	–
Purchase of common shares for cancellation	–	(37)
Preferred share dividends	(900)	(1,090)
Deferred revenue	(32)	(66)
	3,173	(3,117)
Increase (Decrease) In Cash	216	(84)
Cash At Beginning Of Year	15	99
Cash At End Of Year	$ 231	$ 15
Funds Flow Per Common Share *(Note 1(c))*		
Basic	$ 0.34	$ 0.22
Fully diluted	$ 0.32	$ 0.19

The Company is subject to the Business Corporations Act (Alberta) and its shares are listed on The Toronto Stock Exchange. The Company explores for, develops and produces petroleum and natural gas principally in Western Canada.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The consolidated financial statements for 1993 and 1992 include the accounts of the Company and its subsidiary, which is wholly-owned.

(b) Petroleum and Natural Gas Operations

The Company follows the full cost method of accounting for petroleum and natural gas operations. Under this method all costs of exploration for and development of petroleum and natural gas reserves are capitalized by cost centre. A separate cost centre is established for each country in which the Company operates, presently Canada. Costs include lease acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and overhead charges directly related to exploration activities.

The costs related to each cost centre together with costs of production equipment, related facilities and site restoration and abandonment costs are depleted and depreciated using the unit-of-production method based on estimated gross proved reserves in each cost centre, as determined by independent consulting engineers. Oil and natural gas liquids reserves and production are converted into equivalent MCFs of natural gas based upon the relative energy content of each product. The capitalized costs less accumulated depletion and depreciation in each cost centre are limited to an amount equal to the estimated future net revenues from proved reserves plus the cost (net of impairments) of unproved properties less estimated future site restoration, abandonment and capital costs.

The total capitalized costs net of accumulated depletion and depreciation of all cost centres and less deferred income taxes is further limited to an amount equal to the estimated future net revenues from proved reserves plus the cost (net of impairments) of unproved properties of all cost centres less estimated future site restoration, abandonment and capital costs, financing costs, general and administrative expenses and income taxes.

The Company's activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

(c) Net Earnings and Funds Flow per Common Share

Net earnings and funds flow per common share are calculated using the weighted average number of common shares outstanding during the year of 23,880,609 (1992 – 19,886,281). The calculation of funds flow per common share is based on funds flow from operations and after deducting preferred share dividends.

(d) Comparative Amounts

Certain comparative figures have been reclassified to conform to the current year's presentation.

2. Joint Operations

Effective May 1, 1989, the Company entered into a joint venture and management agreement with Czar Resources Ltd. (Czar), a corporation with certain common directors, officers and shareholders.

Pursuant to this agreement, the Company and Czar share overhead costs and jointly participate in new exploration, development, and acquisition activities. The Company reimburses Czar for its proportionate share of costs and expenses in providing overhead services based upon the relative revenue and capital expenditures of the two companies. All oil and gas activities conducted on properties acquired subsequent to May 1, 1989, are conducted with Czar in a sharing ratio established annually. As a result of the activity under the joint venture, the amount owing to Czar recorded in accounts payable and accrued liabilities at December 31, 1993, was $2,519,522 (1992 – $1,367,000).

The Company's share of general and administrative costs with respect to operations of the joint venture were 35.7% (1992 – 34.2%) of the common general and administrative costs incurred by the joint venture.

3. Marketable Securities

	1993	1992
Marketable securities, at lower of cost and fair market value	$ 1,542	$ 1,149
Market value	$ 2,541	$ 2,104

Included in marketable securities are 1.1 million common shares of Canadian Frobisher Resources Ltd., 12% of the common shares outstanding at December 31, 1993.

4. Property, Plant and Equipment

	1993	1992
Petroleum and natural gas properties	$ 97,630	$ 85,194
Accumulated depletion and depreciation	(57,195)	(52,373)
	$ 40,435	$ 32,821

Petroleum and natural gas properties include exploration and development costs and equipment thereon. During the year, the Company capitalized $80,000 (1992 – $138,000) of overhead charges related to exploration activities.

In applying the full cost ceiling test, the following year end product prices were used:

	1993	1992
Oil (per BBL)	$ 20.31	$ 23.40
Natural gas (per MCF)	$ 1.80	$ 1.43

5. Long-Term Debt

	1993	1992
Bank credit facilities (i)	$ 5,300	$ 7,900
Obligations under capital lease (ii)	592	930
	5,892	8,830
Less: current portion	337	349
	$ 5,555	$ 8,481

(i) The Company's credit facility arrangement, is subject to review annually and provides for an $11,500,000 revolving line of credit, bearing interest at the bank prime rate plus ¼%. At the annual review, the Company has the option to convert the credit facility to a term loan, whereby the available facility limit is reduced by equal amounts over six years.

The credit facility is secured by an assignment of accounts receivable, the assignment of certain petroleum and natural gas properties under Section 177 of the Bank Act and a first floating charge debenture on all the assets of the Company.

In 1992, the Company fixed the interest rate payable on $5.0 million of its outstanding credit facility at a rate of 8.62% until July 15, 1997. During 1993, the Company reduced this amount to $4.0 million.

(ii) Obligations Under Capital Lease

Future lease payments are as follows:

1994	$ 387
1995	263
	650
Less: Amounts representing interest averaging 11.56%	58
	592
Less: Current portion	337
	$ 255

6. Other Liabilities

	1993	1992
Deferred revenue (i)	$ 29	$ 61
Site restoration costs	818	553
	$ 847	$ 614

(i) Pursuant to the provisions of certain gas purchase contracts, the Company has received payments for gas to be delivered at future dates. The Company is required to deliver a minimum of 10% of the prepaid gas in each contract year and, accordingly, $42,000 has been classified as a current liability.

7. Capital Stock

(a) Authorized

50,000,000 Class A Preferred Shares, issuable in series
50,000,000 Class B Preferred Shares, issuable in series
Unlimited Common Shares without nominal or par value

The Class A Preferred Shares, Series 2 are entitled to fixed, cumulative, preferential, cash dividends accruing from the date of issue at a rate of $0.75 per share per annum, as and when declared by the Board of Directors, payable quarterly on the last day of March, June, September and December in each year. During each calendar quarter commencing January 1, 1993, Orbit is required to make all reasonable efforts to purchase for cancellation, at a price not exceeding $10.00 per share, 9,774 preferred shares (39,096 preferred shares per annum on a non-cumulative basis).

The Class A Preferred Shares, Series 3 are entitled to fixed, cumulative, preferential, cash dividends accruing from the date of issue at a rate of $0.85 per share per annum, as and when declared by the Board of Directors, payable quarterly on the last day of March, June, September and December in each year. The shares were convertible to common shares of the Company before June 30, 1993 and prior to that date, 348,826 shares were converted to common shares on a basis of 8.77 common shares for each preferred share. During each calendar quarter commencing January 1, 1994, Orbit is required to make all reasonable efforts to purchase for cancellation, at a price not exceeding $10.00 per share, 710 preferred shares (2,840 preferred shares per annum on a non-cumulative basis).

(b) Issued

	Number of Shares	Amount
CLASS A PREFERRED SHARES, SERIES 2		
Balance December 31, 1991 and 1992	977,400	$ 9,510
Purchased for cash and cancelled	(40,800)	(397)
Balance, December 31, 1993	936,600	$ 9,113
CLASS A PREFERRED SHARES, SERIES 3		
Balance December 31, 1991 and 1992	419,805	$ 3,966
Converted to common shares	(348,826)	(3,296)
Balance, December 31, 1993	70,979	$ 670
COMMON SHARES		
Balance, December 31, 1991	19,890,429	$ 27,944
Authorized reduction of share capital	–	(20,273)
For cash on exercise of stock options	12,000	6
Pursuant to employee savings plan	138,968	76
Purchased for cash and cancelled	(77,500)	(111)
Balance, December 31, 1992	19,963,897	$ 7,642
For cash: on share issue	3,300,000	3,686
on exercise of warrants	720,800	1,081
on exercise of stock options	420,000	211
On conversion of preferred shares	3,059,811	3,296
Pursuant to employee savings plan	45,032	73
Pursuant to flow-through share agreements [1]	1,037,000	2,346
Balance, December 31, 1993	28,546,540	$ 18,335

[1] *$250,000 of the flow-through share subscription was due and received in March 1994*

CONTRIBUTED SURPLUS	
Balance, December 31, 1991	$ 247
Excess of average value of preferred shares over cash required to purchase and cancel	74
Balance, December 31, 1992	321
Excess of average value of preferred shares over cash required to purchase and cancel	43
Balance, December 31, 1993	$ 364

(c) Common Share Options

At December 31, 1993, common shares were reserved in respect of options granted to directors, officers and employees to acquire 1,121,500 shares at exercise prices ranging from $0.50 to $2.37 until October 23, 1998.

(d) Employee Savings Plan

The employee savings plan provides for employee savings of up to 5% of salary which is matched by the Company in the form of common shares of the Company. During the year ended December 31, 1993, employees became entitled to receive 45,032 common shares (1992 – 138,968).

(e) Common Share Purchase Warrants

In August 1993, the Company issued 1,650,000 purchase warrants entitling each holder to purchase one common share at a price of $1.50 until October 30, 1994. At December 31, 1993, 929,200 warrants were outstanding.

8. INCOME TAXES

The provision for income taxes in the consolidated statement of operations and retained earnings varies from the amount that would be computed by applying the expected tax rate of 44% (1992 – 44%) to earnings before income taxes. The principal reasons for differences between such "expected" income tax expense and the amount actually recorded are as follows:

	1993	1992
Computed "expected" income tax expense	$ 2,417	$ 636
Increase (decrease) in income taxes resulting from:		
Non-deductible royalties, taxes and lease rentals less provincial rebates	815	596
Federal resource allowance	(932)	(666)
Alberta Royalty Tax Credit	(310)	(156)
Accounting gain on sale of marketable securities	(613)	–
Non-deductible depletion	187	128
Non-recognition of tax loss carry forward	(1,551)	(538)
Other	(13)	–
Actual income tax expense	$ –	$ –

The Company has tax deductions of approximately $49,500,000 available for deduction related to its petroleum and natural gas assets to reduce income taxes payable in Canada.

• Management Report •

To the Shareholders of Orbit Oil & Gas Ltd.

The management of Orbit Oil & Gas Ltd. is responsible for the preparation of all information included in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and where necessary, include amounts based on management's informed judgements and estimates. Financial information included elsewhere in this Annual Report is consistent with the consolidated financial statements.

Management maintains an appropriate system of accounting and administrative controls to provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records are properly maintained to provide reliable financial statements. In addition, programs of proper business conduct and risk management have been implemented to protect the Company's assets and operations.

Price Waterhouse, Chartered Accountants, appointed by the shareholders, have audited the financial statements and conducted a review of internal accounting policies and procedures to the extent required by generally accepted auditing standards, and performed such tests as they deemed necessary to enable them to express an opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for assuring that management fulfills its financial reporting responsibilities. The Audit Committee includes a majority of independent directors who are not employees of the Company. The Committee reviews the financial content of the Annual Report and meets regularly with management and Price Waterhouse to discuss internal controls, accounting, auditing and financial matters. The Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for assurance to the shareholders.

President
March 26, 1994

Chief Financial Officer

• Auditors' Report •

To the Shareholders of Orbit Oil & Gas Ltd.

We have audited the consolidated balance sheets of Orbit Oil & Gas Ltd. as at December 31, 1993 and 1992 and the consolidated statement of operations and retained earnings and statement of source and use of cash for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1993 and 1992 and the results of its operations and the changes in the source and use of cash for the years then ended in accordance with generally accepted accounting principles.

Price Waterhouse

March 11, 1994
Calgary, Alberta

Price Waterhouse
Chartered Accountants

Corporate Information

Board of Directors

Robert W. Lamond [1,2]
Chairman of the Board
President and Chief Executive Officer of the Company
Calgary, Alberta

Charles A. Teare
Executive Vice President and Chief Financial Officer of the Company
Calgary, Alberta

Donald M. Deacon
Independent Businessman
Charlottetown, P.E.I.

Ashley G. Down [2]
Director
M & G Group PLC
London, England

Robert L. McPherson [1]
President of Cheetah Energy Limited
Calgary, Alberta

Edward R.R. Carruthers [1,2] **Q.C.**
Partner, Milner Fenerty
Calgary, Alberta

[1] Audit Committee

[2] Compensation Committee

Officers & Senior Personnel

Robert W. Lamond
Chairman, President and Chief Executive Officer

Charles A. Teare
Executive Vice President and Chief Financial Officer

P. Richard Ewacha
Vice President, Production

C. Steven Cohen
Corporate Secretary

Paul M. Boechler
Controller

Wayne T. Radcliffe
Land Manager

Herbert J. Visscher
Exploration Manager

Donald K. Clark
Production Manager, British Columbia

Philip W. Payzant
Production Manager, Alberta

Kumar Mendis
Accounting Manager

Kurt Larsen
Manager, Gas Marketing and Regulatory Affairs

Eugene Wasylchuk
Acquisitions Manager

M. Lucy Ionescu
Manager, Reservoir Engineering

Michael C.L. Campbell
Assistant Secretary

Russ M. Sych
Senior Production Foreman
Alberta Production Operations

Warren M. Smith
Senior Production Foreman
British Columbia Production Operations

Corporate Office

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Calgary, Alberta
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Tel: (403) 750-4440
Fax: (403) 263-2341

Legal Counsel

Burnet, Duckworth & Palmer
Calgary, Alberta

Auditors

Price Waterhouse
Calgary, Alberta

Registrar & Transfer Agent

Montreal Trust of Canada
Calgary, Alberta

Reserve Engineering Consultants

Fekete Associates Inc.
Calgary, Alberta

Subsidiaries

Europa Oil & Gas Inc.
Calgary, Alberta

Stock Listings

The Toronto Stock Exchange
Trading Symbol

Common share	ORB
Preferred series 2	ORB.PRB
Preferred series 3	ORB.PRC

· Annual Information Form ·

Copies of the Company's Annual Information Form as filed with the Ontario Securities Commission are available upon written request free of charge to all shareholders of record and beneficial owners of shares. Requests should be directed to the Corporate Secretary at the Company's head office.

· Abbreviations ·

Throughout this report, standard oil and gas abbreviations have been used. Their explanation is as follows

BBLS	Barrels
BBLS/D	Barrels Per Day
MSTB	Thousand Stock Tank Barrels
MCF	Thousand Cubic Feet
MMCF	Million Cubic Feet
BCF	Billion Cubic Feet
TCF	Trillion Cubic Feet
MMCF/D	Million Cubic Feet Per Day
NGLs	Natural Gas Liquids

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